

STATE OF HAWAII—DEPARTMENT OF TAXATION
INSTRUCTIONS FOR FORM N-220
Underpayment of Estimated Tax by Corporations
and S Corporations

Purpose of Form

Form N-220 is used by corporations, S corporations, and certain tax-exempt organizations subject to the unrelated business income tax, to determine whether they paid enough estimated income tax, whether they are subject to the penalty for underpayment of estimated tax, and, if so, the amount of the penalty due. The estimated tax is a corporation's or S corporation's expected income tax liability minus the allowable tax credits. A domestic corporation must make estimated tax payments if it can reasonably expect its estimated tax to be \$500 or more. A foreign corporation must make estimated tax payments if 15% or more of the corporation's business (entire gross income) for the taxable year will be attributable to Hawaii. The Department of Taxation may excuse the filing of an estimate and payment of estimated taxes if it is satisfied that less than 15% of the foreign corporation's business for the taxable year will be attributable to the State.

Form N-220 includes the annualized income installment method and the adjusted seasonal installment method. These estimated tax computation methods are incorporated in the Schedule A section. Under the annualized income installment method, a corporation or S corporation has three sets of periods over which it may annualize income. If the taxpayer is making an election to use one of the optional annualization periods for State estimated tax purposes, a copy of the completed federal Form 8842 must be submitted to the District Tax Assessor on or before the due date of the first required installment payment.

Who Must Pay The Underpayment Penalty

Generally, a corporation is subject to the penalty if the tax shown on its 1995 tax return is \$500 or more and it did not pay at least the smaller of:

1. The tax shown on its 1996 return, or
2. The tax shown on its 1995 return and the 1995 return it filed showed some amount of tax and the return was for a full 12 month period.

A large corporation, however, may base only its first required tax installment on the prior year's tax liability. In these instructions, "return" refers to the corporation's original tax return. An amended return is considered the original return if the amended return is filed by the due date (including extensions) of the original return.

The penalty is figured separately for each installment due date. Therefore, the corporation may owe a penalty for an earlier due date, even if the corporation paid enough tax later to make up the earlier underpayment of tax. This is true even if the corporation is due a refund when its return is filed. A corporation may be able to reduce or eliminate the penalty by using the annualized income installment method or the adjusted seasonal installment method.

How To Use This Form

Check one or more boxes (a, b, or c) in Part I if the corporation uses the annualized income installment method, the adjusted seasonal installment method, or the corporation is a large corporation.

Complete Part II of Form N-220 to determine the underpayment for any of the four installment due dates. If there is an underpayment on line 14 (column (a), (b), (c), or (d)), go to Part III of the form to compute the penalty. Attach Form N-220 to the income tax return and check the box on line 34, page 1 of Form N-30 or line 17 of Form N-70NP.

Part I. Reason for Filing

Box a and b. Annualized income installment method and/or adjusted seasonal installment method. If the corporation's income varied during the year because, for example, it operated its business on a seasonal basis, it may be able to lower or eliminate the amount of one or more required installments by using the annualized income installment method or the adjusted seasonal installment method. The annualized income installment or adjusted seasonal installment may be less than the required installment under the regular method for one or more due dates. This will reduce or eliminate the penalty for those installment due dates.

To use one or both of these methods to figure one or more required installments, use Schedule A of Form N-220. If Schedule A is used for any payment due date, it must be used for all payment due dates. To arrive at

the amount of each required installment, Schedule A automatically selects the smallest of: (a) the annualized income installment, (b) the adjusted seasonal installment, if applicable, or (c) the regular installment under IRC section 6655(d) (increased by any reduction recaptured under IRC section 6655(e)(1)(B)).

If the corporation is using only the annualized income installment method, it must check box a of Part I and complete Parts I and III of Schedule A. If the corporation is using only the adjusted seasonal installment method, it must check box b of Part I and complete Parts II and III of Schedule A. If the corporation is using both methods, it must check boxes a and b of Part I and complete all three parts of Schedule A. Enter the amount from the corresponding column of line 41, Part III, Schedule A, in each column on line 7 of Form N-220.

Box c. If the corporation is a large corporation, check box c. A large corporation is a corporation (other than a S corporation) that had, or its predecessor had, taxable income of \$1 million or more for any of the three tax years immediately preceding the current tax year. For this purpose, taxable income is modified to exclude net operating loss or capital loss carrybacks or carryovers.

Part II. Figuring the Underpayment

Complete lines 1 through 15 of Part II.

Line 1. — Enter the tax from line 29, Form N-30; line 22(d), Form N-35; or line 9, Form N-70NP.

Line 2a. — Complete the worksheet below to determine the amount to enter on line 2a. Do not include on the worksheet lines below estimated taxes paid, credit for taxes withheld on the sale or disposition of Hawaii real property, the amount withheld by an S corporation for a nonresident shareholder, or an overpayment from the prior year to be applied to the current year's tax liability. Enter the amount of the applicable credit(s) from the income tax return on the appropriate line below:

CREDIT	AMOUNT
Energy Conservation Tax Credit	_____
Enterprise Zone Tax Credit	_____
Low-Income Housing Tax Credit	_____
Credit for Employment of Vocational Rehabilitation Referrals	_____
Capital Goods Excise Tax Credit.....	_____
Fuel Tax Credit—Commercial Fishers.....	_____
Total Credits to be entered on line 2a.....	_____

Line 4. — **All filers other than S corporations.** Figure the corporation's prior year's tax in the same manner as the amount on line 3 of Form N-220 was determined, using the taxes and credits from the prior year's tax return.

Skip line 4 and enter the amount from line 3 on line 5 if either of the following apply:

1. The corporation did not file a tax return for the prior year that showed a liability for at least some amount of tax; or
2. The corporation had a prior year tax year of less than 12 months.

S Corporations. Enter on line 4 the sum of: (a) 100% of the built-in gains tax (or the tax on certain capital gains) shown on the return for the tax year and (b) 100% of any excess net passive income tax shown on the S corporation's tax return for the prior tax year. If the prior tax year was less than 12 months, do not complete line 5. Instead, enter the amount from line 3 on line 5.

Line 7. — Required Installments. If Part I does not apply, follow the instructions below to figure the amount to enter on line 7.

If line 3 is smaller than line 4, enter 25% of line 3 in columns (a) through (d) on line 7.

If line 4 is smaller than line 3, enter 25% of line 4 in column (a) on line 7. In column (b), determine the amount to enter by:

1. Subtracting line 4 from line 3,
2. Adding the result to the amount on line 3, and

3. Multiplying the total in no.2 above by 25% and enter the result in column (b).

In columns (c) and (d), enter 25% of line 3.

If Part I, box c (but not box a or b) applies and line 3 is smaller than line 4, enter 25% of line 3 in columns (a) through (d) of line 7.

If Part I, box c (but not box a or b) applies and line 4 is smaller than line 3, enter 25% of line 4 in column (a) of line 7. In column (b) of line 7, figure the amount to enter as follows:

1. Subtract line 4 from line 3.
2. Add the result to the amount on line 3.
3. Multiply the total in number 2 above by 25% and enter the result in line 7, column (b). On line 7, column (c) and (d), enter 25% of line 3.

If Part I, box a or b and box c apply, follow the above instructions by substituting the amounts from Schedule A, line 37 for line 7.

Line 8. — In column (a), enter the estimated tax payments deposited by the 20th day of the 4th month of the corporation's tax year. In column (b), enter payments made after the 20th day of the 4th month through the 20th day of the 6th month of the tax year. In column (c), enter payments made after the 20th day of the 6th month through the 20th day of the 9th month of the tax year. In column (d), enter payments made after the 20th day of the 9th month through the 20th day of the 1st month following the close of the tax year.

Include in the estimated tax payments any overpayment of tax from the corporation's prior year's tax return that was credited to the corporation's current year estimated tax.

Line 14. — If any of the columns in line 14 shows an underpayment, complete Part III to figure the penalty.

Part III. Figuring the Penalty

Complete lines 16 through 21 to determine the amount of the penalty. The penalty is figured for the period of underpayment determined under section 235-97(f), HRS.

Act 67, Session Laws of Hawaii (SLH) 1995, amended the computation method of the underestimated tax penalty from a daily computation to a monthly computation. The rate of 8 percent a year has not changed but the penalty is imposed on the amount of the underpayment of estimated tax at the rate of two-thirds of one percent a month or fraction of a month. A monthly factor of .00667 is used on the form. Act 67, SLH 1995 applies to taxable years beginning after December 31, 1994.

Line 16. — A payment of estimated tax is applied against underpayments of required installments in the order that installments are required to be paid, regardless of which installment the payment pertains to.

Line 19. — Count the number of months from the due date of the installment payment on line 17 to the date shown on line 18. Enter the number of months, rounding up any fractions of a month. A fraction of a month is counted as one month.

For example, a corporation has an underpayment for the April 20 installment of \$1,000. The June 20 installment requires a payment of \$2,500. On June 10, the corporation deposits \$2,500 to cover the June 20 installment. However, \$1,000 of this payment is considered to be for the April 20 installment. The penalty for the April 20 installment is figured to June 10 (2 months). The payment to be applied to the June 20 installment will then be \$1,500.

If the corporation has made more than one payment for a required installment, attach a separate computation for each payment.

Schedule A

Part I — Annualized Income Installment Method

Line 1. — Enter in the space on line 1, columns (a) through (d), respectively, the annualization period that the corporation used. A corporation or S corporation electing to use Option 1 or Option 2 periods and a tax exempt organization subject to the unrelated business income tax using the Option 2 must have timely submitted a copy of the election form, federal Form 8842, Election To Use Different Annualization Periods For Corporate Estimated

Tax with the District Tax Assessor. Otherwise, the Standard option for the applicable entity must be used. The Standard option may be used without filing federal Form 8842.

CAUTION: Use Option 1 or Option 2 only if the corporation elected to do so by submitting a copy of the federal Form 8842 on or before the due date of the first required installment payment. Once made, the election is irrevocable for the particular tax year.

Standard option for corporations. — Enter "3" in columns (a) and (b), "6" in column (c), and "9" in column (d).

Standard option for tax exempt organizations subject to the unrelated business income tax. — Enter "2" in column (a), "3" in column (b), "6" in column (c), and "9" in column (d).

Option 1 for all organizations. — Enter "2" in column (a), "4" in column (b), "7" in column (c), and "10" in column (d).

Option 2 for all organizations. — Enter "3" in column (a), "5" in column (b), "8" in column (c), and "11" in column (d).

Line 3. — Enter the annualization amount for the option used on line 1 above.

Standard option for corporations. — Enter "4" in columns (a) and (b), "2" in column (c), and "1.33333" in column (d).

Standard option for tax exempt organizations subject to the unrelated business income tax. — Enter "6" in column (a), "4" in column (b), "2" in column (c), and "1.33333" in column (d).

Option 1 for all organizations. — Enter "6" in column (a), "3" in column (b), "1.71429" in column (c), and "1.2" in column (d).

Option 2 for all organizations. — Enter "4" in column (a), "2.4" in column (b), "1.5" in column (c), and "1.09091" in column (d).

Line 6. — Enter the amount, if any, from Form N-30, Schedule J, line 21. Otherwise, enter -0-.

Line 8. — Enter the tax credits allowed due to events that occurred during the months shown in column headings used to figure annualized taxable income. Complete the tax credits based on Part II, lines 1 and 2a.

Line 12. — Before completing line 12, columns (b) through (d), complete Schedule A, Part III, lines 36 through 41, for each of the preceding columns. For example, complete Schedule A, Part II, lines 14 through 35 (if using the adjusted seasonal installment method), and Schedule A, Part III, lines 35 through 41, column (a) before completing Schedule A, line 12, column (b).

Part II — Adjusted Seasonal Installment Method

The corporation may use the adjusted seasonal installment method only if the corporation's base period percentage for any 6 consecutive months of the tax year is 70% or more. The base period percentage for any period of 6 consecutive months is the average of the 3 percentages figured by dividing the taxable income for the corresponding 6 consecutive month period in each of the 3 preceding tax years by the taxable income for each of their respective tax years.

Example. An amusement park that has a calendar year as its tax year receives the largest part of its taxable income during the 6 month period from May through October. To compute its base period percentage for the period May through October 1996, it must figure its taxable income for the period May through October in each of the years: 1993, 1994, and 1995. The taxable income for each May through October period is then divided by the total taxable income for the tax year in which the period is included, resulting in the following quotients: .69 for May through October 1993, .74 for May through October 1994, and .67 for May through October 1995. Since the average of .69, .74, and .67 is equal to .70, the base period percentage for May through October 1996 is 70%. Therefore, the amusement park qualifies for the adjusted seasonal installment method.

Line 30. — Enter the same amount as Schedule A, line 7.

Line 32. — Enter the tax credits the corporation is entitled to for the months shown in each column.

Line 34. — Before completing line 34 in columns (b) through (d), complete lines 36 through 41 in each of the preceding columns. For example, complete lines 36 through 41 for column (a) before completing line 34 in column (b).